Part 2 Appendix 1 – Financial appraisal of relocation options

The original proposal

The table below sets out the original savings at the launch of the consultation into the proposals with the London Assembly, GLA and MOPAC staff, Unison and PCS on 24 June 2020.

	5-Year lease
	£m
CH Rent	47.2
Rates/Utilities	15.8
Set up cost	(8.0)
Crystal Rent	(12.0)
Palestra desk space	(11.5)
GLA Saving (original)	**31.5**
Crystal Rent inc rates & running costs	12.0
Palestra desk space	11.5
GLA Group Saving (original)	**55.0**

The original proposal was to leave City Hall, relocate to The Crystal and take up additional space at Palestra which is similar to Option 2 below.

In light of the feedback from Assembly Members and staff during the consultation period and thereafter, the GLA has evaluated four options in terms of the financial impact and other impacts and risks:

1	Stay at City Hall on a new 10-year lease until 2031 with an option to extend for a further five years; at the same time give up our current space in Union Street; rent The Crystal to a third party.
2	Leave City Hall and relocate permanently to The Crystal; occupy two floors at Union Street in addition to The Crystal based on the London Fire Brigade's certain lease term until 2027; with appropriate accommodation provided for the London Assembly across the two sites.
2A	Leave City Hall and occupy two floors at Union Street based on the London Fire Brigade's certain lease term until 2027 and one-and-a-half floors at Palestra; use the chamber, meeting rooms and public event space at The Crystal.
3	Leave City Hall and occupy two floors at Union Street based on the London Fire Brigade's certain lease term until 2027 and one-and-a-half floors at Palestra; rent a suitable chamber, meeting rooms and public event space in walking distance of Union Street; rent The Crystal to a third party.

The approach to evaluating the savings

This remains the same as the original proposal by taking the current rent and rates from December 2021. The original calculation omitted running costs at City Hall which is now included in the evaluation and compared against the costing for each option outlined above.

Rent at current City Hall (applied to all options)

Each option is compared against the current five-year budget and year six to fifteen is based on Avison Young's advice.

Rates/Utilities/Service charge/Building and capital maintenance cost at City Hall

Current budget

Rent at City Hall (applies to Option 1)

Latest and final landlord offer of 9 October.

Rent at 1st Union Street (applies to Option 2, 2A and 3)

Takes the current advice by London Fire Brigade.

Rent at GF Union Street (applies to Option 2, 2A and 3)

Takes figures from current lease

Rent at Palestra (applies to Option 2A and 3)

Provided by TfL

Desk space requirement (all options)

Based on 575 which is the calculated required for the GLA and MOPAC going forward.

Chamber cost (Option 3)

Provided by TfL

Relocation cost (Option 2, 2A)

Provided by TfL, Avison Young, JLL and GLA project team

MOPAC

It is assumed the same shared service arrangement will exist between GLA and MOPAC. Any change in future after the move will be adjusted at Group level which is anticipated to be net neutral to the GLA and Group.

Crystal rent (for all options)

JLL provided the rental estimates. There are two rent figures quoted which are:
£1.2m per annum in the current state of the building
£1.68m per annum if the Crystal was refurbished by GLAP to command a higher rate for the GLA

Crystal running cost (for all options)
Provided by GLAP/TfL and Head of Facilities Management

Option 1

Stay at City Hall on a new 10-year lease until 2031 with an option to extend for a further five years; at the same time give up our current space in Union Street; rent The Crystal to a third party.

		City Hall estimated costs based on current terms and AY assumptions			City Hall latest offer 09.10.2020			Savings based on 02.10.2020 offer		
	Annual Dec-21	5 Year	10 Year*	15 Year*	5 Year	10 Year	15 Year	5 Year	10 Year	15 Year
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Rent	9.4	47.2	87.0	122.8	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Rates	2.7	15.1	30.1	48.4	15.1	30.1	48.4	0.0	0.0	0.0
Service charge	0.4	2.4	4.8	7.7	2.4	4.8	7.7	0.0	0.0	0.0
Gas/Elect/Water	0.6	3.2	6.4	10.3	3.2	6.4	10.3	0.0	0.0	0.0
Building maint and mgt	1.5	8.6	17.2	27.7	8.6	17.2	27.7	0.0	0.0	0.0
Capital maintenance	0.8	4.4	9.1	14.3	4.4	9.1	14.3	0.0	0.0	0.0
Bowtie	0.7	3.8	7.6	12.3	3.8	7.6	12.3	0.0	0.0	0.0
Other	0.8	4.3	8.7	14.0	4.3	8.7	14.0	0.0	0.0	0.0
CH total rent and running cost	**17.0**	**89.1**	**170.9**	**257.5**	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
Union Street Ground Floor rent	1.5	7.5	15.0	22.5	0.0	0.0	0.0	7.5	15.0	22.5
CH rental income for hiring space	(1.0)	(1.0)	(2.0)	(3.0)	(1.0)	(2.0)	(3.0)	0.0	0.0	0.0
MOPAC rental income	(1.3)	(6.5)	(13.0)	(19.5)	(6.5)	(13.0)	(19.5)	0.0	0.0	0.0
							GLA savings	[redacted]	[redacted]	[redacted]
Crystal income	0.0	0.0	0.0	0.0	(6.0)	(12.0)	(18.0)	6.0	12.0	18.0
Rent from GLA (Union Street)	(1.5)	(7.5)	(15.0)	(22.5)	0	0	0	(7.5)	(15.0)	(22.5)
MOPAC rent to GLA	1.3	6.5	13.0	19.5	6.5	13.0	19.5	0.0	0.0	0.0
							Group Savings	[redacted]	[redacted]	[redacted]

* The current lease runs until Dec-26 (5 Year). Future rent is based on Avison Young's advice which built on the Landlord's offer of 13.08.20

The savings generated as a result of the lease negotiations are [redacted] over 5,10 and 15 years respectively

The savings generated as a result leaving Union Street are: £7.5m, £15m and £22.5m over 5,10 and 15 years respectively

This produces a savings to GLA of: [redacted] over 5,10 and 15 years respectively when compared against the current budget for all rates and running cost at City Hall, current lease at City Hall until December 2027 and Avison Young's advice thereafter.

The Group savings are [redacted] over 5, 10 and 15 years respectively after taking into consideration of Crystal income for letting to 3rd party and loss of income from GLA to Group.

Option 2

Table below compares current lease until December 2026 (future years are assumptions from Avison and Young) against relocating permanently to The Crystal; occupy two floors at Union Street in addition to The Crystal based on the London Fire Brigade's certain lease term until 2027; with appropriate accommodation provided for the London Assembly across the two sites.

	Annual Dec-21	City Hall estimated costs based on current terms and AY assumptions 5 Year	10 Year*	15 Year*	Move to Crystal & additional floor at Union Street 5 Year	10 Year	15 Year	Savings based on current terms and AY assumptions 5 Year	10 Year	15 Year
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Rent	47.2	47.2	87.0	122.8	8.4	17.5	26.5	38.8	69.5	96.3
Rates	15.8	15.1	30.1	48.4	1.9	4.1	6.5	13.1	26.0	41.9
Service charge	0.4	2.4	4.8	7.7	0.1	0.3	0.4	2.3	4.5	7.2
Gas/Elect/Water	0.6	3.2	6.4	10.3	1.6	3.4	5.5	1.6	3.0	4.8
Building maint and mgt	1.5	8.6	17.2	27.7	3.9	8.1	13.0	4.7	9.1	14.6
Cleaning	0.8	4.4	9.1	14.3	1.3	7.5	12.1	3.2	1.6	2.2
Bowtie	0.7	3.8	7.6	12.3	3.6	2.7	4.3	0.2	4.9	7.9
Other	0.8	4.3	8.7	14.0	1.8	3.7	5.9	2.6	5.0	8.1
CH total rent and running cost	**67.8**	**89.1**	**170.9**	**257.5**	**22.7**	**47.3**	**74.3**	**66.4**	**123.6**	**183.1**
Union Street Ground Floor rent	1.5	7.5	15.0	22.5	7.5	15.0	22.5	0.0	0.0	0.0
Union Street First Floor rent	0.0	0.0	0.0	0.0	5.8	11.3	16.8	(5.8)	(11.3)	(16.8)
Fitout at Union Street for Assembly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Move to space similar US from 2027 and fitout	0.0	0.0	0.0	0.0	0.0	1.8	1.8	0.0	(1.8)	(1.8)
Palestra rent	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CH rental income for hiring space	(1.0)	(1.0)	(2.0)	(3.0)	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)
Crystal rental income for hiring space	0.0	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)	1.0	2.0	3.0
MOPAC rental income	(1.3)	(6.5)	(13.0)	(19.5)	(6.5)	(13.0)	(19.5)	0.0	0.0	0.0
Relocation cost	0.0	0.0	0.0	0.0	13.6	13.6	13.6	(13.6)	(13.6)	(13.6)
GLA savings								**47.0**	**97.0**	**151.0**
Crystal income	0.0	0.0	0.0	0.0	(8.4)	(17.5)	(26.5)	8.4	17.5	26.5
Rent from GLA for Union St	(1.5)	(7.5)	(15.0)	(22.5)	(13.3)	(26.3)	(39.3)	5.8	11.3	16.8
Rent from GLA for Palestra	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MOPAC rent to GLA	1.3	6.5	13.0	19.5	6.5	13.0	19.5	0.0	0.0	0.0
Group Savings								**61.2**	**125.8**	**194.3**

* The current lease runs until Dec-26 (5 Year). Future rent is based on Avison Young's advice which built on the Landlord's offer of 13 08.20

Additional savings compared to Option 1			
GLA savings	[redacted]	[redacted]	[redacted]
GLA Group savings	[redacted]	[redacted]	[redacted]

Assumptions - Similar rent space as Union Street from 2027.

This option makes The Crystal the new City Hall. The savings generated by comparing the current City Hall cost and The Crystal are: £66.4m, £123.6m and £183m over 5, 10 and 15 years respectively.

After factoring rental cost at Union Street and the one-off relocation cost to The Crystal and the one-off relocation from Union Street after 2027, the GLA savings are: £47m, £97m and £151m over 5,10 and 15 years respectively.

When comparing this saving over Option 1, the savings are [redacted] over 5, 10, and 15 years.

This means Option 2 produces more savings to the GLA than Option 1.

The group savings are £61.2m, £125.8m and £194.3m over 5,10 and 15 years after factoring in rent received from GLA for Crystal and Union Street.

Compared to Option 1, this option generates a higher saving which are: [redacted] over 5, 10 and 15 years.

Option 2A

Table below compares current lease until December 2026 (future years are assumptions from Avison and Young) against occupying two floors at Union Street based on the London Fire Brigade's certain lease term until 2027 and one-and-a-half floors at Palestra; use the chamber, meeting rooms and public event space at The Crystal.

		City Hall estimated costs based on current terms and AY assumptions			Use Crystal as Chamber & meeting space, occupy 2 floors at Union Street & 1.5 floors at Palestra			Savings based on current terms and AY assumptions		
	Annual Dec-21	5 Year	10 Year*	15 Year*	5 Year	10 Year	15 Year	5 Year	10 Year	15 Year
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Rent	47.2	47.2	87.0	122.8	8.4	17.5	26.5	38.8	69.5	96.3
Rates	15.8	15.1	30.1	48.4	1.9	4.1	6.5	13.1	26.0	41.9
Service charge	0.4	2.4	4.8	7.7	0.1	0.3	0.4	2.3	4.5	7.2
Gas/Elect/Water	0.6	3.2	6.4	10.3	1.6	3.4	5.5	1.6	3.0	4.8
Building maint and mgt	1.5	8.6	17.2	27.7	3.9	8.1	13.0	4.7	9.1	14.6
Cleaning	0.8	4.4	9.1	14.3	1.3	7.5	12.1	3.2	1.6	2.2
Bowtie	0.7	3.8	7.6	12.3	3.6	2.7	4.3	0.2	4.9	7.9
Other	0.8	4.3	8.7	14.0	1.8	3.7	5.9	2.6	5.0	8.1
CH total rent and running cost	**67.8**	**89.1**	**170.9**	**257.5**	**22.7**	**47.3**	**74.3**	**66.4**	**123.6**	**183.1**
Union Street Ground Floor rent	1.5	7.5	15.0	22.5	7.5	7.5	7.5	0.0	7.5	15.0
Union Street First Floor rent	0.0	0.0	0.0	0.0	5.8	5.8	5.8	(5.8)	(5.8)	(5.8)
Fitout at Union Street for Assembly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Move to space similar Palestra from 2027 and fitout	0.0	0.0	0.0	0.0	0.0	1.8	1.8	0.0	(1.8)	(1.8)
Palestra rent	0.0	0.0	0.0	0.0	8.4	31.0	56.1	(8.4)	(31.0)	(56.1)
CH rental income for hiring space	(1.0)	(1.0)	(2.0)	(3.0)	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)
Crystal rental income for hiring space	0.0	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)	1.0	2.0	3.0
MOPAC rental income	(1.3)	(6.5)	(13.0)	(19.5)	(6.5)	(13.0)	(19.5)	0.0	0.0	0.0
Relocation cost	0.0	0.0	0.0	0.0	13.6	13.6	13.6	(13.6)	(13.6)	(13.6)
GLA savings								**38.6**	**79.0**	**120.9**
Crystal income	0.0	0.0	0.0	0.0	(6.0)	(12.0)	(18.0)	6.0	12.0	18.0
Rent from GLA for Union St	(1.5)	(7.5)	(15.0)	(22.5)	(13.3)	(13.3)	(13.3)	5.8	(1.7)	(9.2)
Rent from GLA for Palestra	0.0	0.0	0.0	0.0	(8.4)	(31.0)	(56.1)	8.4	31.0	56.1
MOPAC rent to GLA	1.3	6.5	13.0	19.5	6.5	13.0	19.5	0.0	0.0	0.0
Group Savings								**58.8**	**120.2**	**185.8**

* The current lease runs until Dec-26 (5 Year). Future rent is based on Avison Young's advice which built on the Landlord's offer of 13.08 20

Additional savings compared to Option 1			
GLA savings	[redacted]	[redacted]	[redacted]
GLA Group savings	[redacted]	[redacted]	[redacted]

This option makes The Crystal the new City Hall. The savings generated by comparing the current City Hall cost and The Crystal are: £66.4m, £123.6m and £183m over 5, 10 and 15 years respectively.

After factoring rental cost at Union Street, Palestra, Crystal fitout cost, and the one-off relocation from Union Street after 2027, the GLA savings are: £38.6m, £79m and £120.9 m over 5,10 and 15 years respectively.

When comparing this saving over Option 1, the savings are higher by [redacted] over 5, 10, and 15 years.

This means Option 2A produces more savings to the GLA than Option 1.

The group savings are £58.8m, £120.2m and £185.8m over 5,10 and 15 years after factoring in rent received from GLA for Crystal and Union Street.

Compared to Option 1, this option generates a higher saving which are [redacted] over 5, 10 and 15 years at Group level.

Option 3

Comparing current lease against occupying two floors at Union Street based on the London Fire Brigade's certain lease term until 2027 and one-and-a-half floors at Palestra; rent a suitable chamber, meeting rooms and public event space in walking distance of Union Street; rent The Crystal to a third party.

		City Hall estimated costs based on current terms and AY assumptions			Occupy 2 floors at Union Street & 1.5 floors at Palestra & hire chamber			Savings based on current terms and AY assumptions		
	Annual Dec-21	5 Year	10 Year*	15 Year*	5 Year	10 Year	15 Year	5 Year	10 Year	15 Year
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Rent	47.2	47.2	87.0	122.8	0.0	0.0	0.0	47.2	87.0	122.8
Rates	15.8	15.1	30.1	48.4	0.0	0.0	0.0	15.1	30.1	48.4
Service charge	0.4	2.4	4.8	7.7	0.0	0.0	0.0	2.4	4.8	7.7
Gas/Elect/Water	0.6	3.2	6.4	10.3	0.0	0.0	0.0	3.2	6.4	10.3
Building maint and mgt	1.5	8.6	17.2	27.7	0.0	0.0	0.0	8.6	17.2	27.7
Clearning	0.8	4.4	9.1	14.3	0.0	0.0	0.0	4.4	9.1	14.3
Bowtie	0.7	3.8	7.6	12.3	3.6	2.7	4.3	0.2	4.9	7.9
Other	0.8	4.3	8.7	14.0	0.0	0.0	0.0	4.3	8.7	14.0
CH total rent and running cost	**67.8**	**89.1**	**170.9**	**257.5**	**3.6**	**2.7**	**4.3**	**85.5**	**168.2**	**253.2**
Union Street Ground Floor rent	1.5	7.5	15.0	22.5	7.5	7.5	7.5	0.0	7.5	15.0
Union Street First Floor rent	0.0	0.0	0.0	0.0	5.8	5.8	5.8	(5.8)	(5.8)	(5.8)
Fitout at Union Street for Assembly	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Move to space similar Palestra from 2027 and fitout	0.0	0.0	0.0	0.0	0.0	1.8	1.8	0.0	(1.8)	(1.8)
Palestra rent	0.0	0.0	0.0	0.0	8.4	31.0	56.1	(8.4)	(31.0)	(56.1)
Lease of chamber	0.0	0.0	0.0	0.0	13.2	27.7	43.7	(13.2)	(27.7)	(43.7)
CH rental income for hiring space	(1.0)	(1.0)	(2.0)	(3.0)	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)
Crystal rental income for hiring space	0.0	0.0	0.0	0.0	(1.0)	(2.0)	(3.0)	1.0	2.0	3.0
MOPAC rental income	(1.3)	(6.5)	(13.0)	(19.5)	(6.5)	(13.0)	(19.5)	0.0	0.0	0.0
Fit out of Chamber	0.0	0.0	0.0	0.0	9.8	9.8	9.8	(9.8)	(9.8)	(9.8)
GLA savings								**48.4**	**99.7**	**151.0**
Crystal income	0.0	0.0	0.0	0.0	(6.0)	(12.0)	(18.0)	6.0	12.0	18.0
Rent from GLA for Union St	(1.5)	(7.5)	(15.0)	(22.5)	(13.3)	(13.3)	(13.3)	5.8	(1.7)	(9.2)
1.5 floors Palestra	0.0	0.0	0.0	0.0	(8.4)	(31.0)	(56.1)	8.4	31.0	56.1
MOPAC rent to GLA	1.3	6.5	13.0	19.5	6.5	13.0	19.5	0.0	0.0	0.0
Group Savings								**68.5**	**141.0**	**215.9**

* The current lease runs until Dec-26 (5 Year). Future rent is based on Avison Young's advice which built on the Landlord's offer of 13.08 20

ditional savings compared to Option 1			
GLA savings	[redacted]	[redacted]	[redacted]
GLA Group savings	[redacted]	[redacted]	[redacted]

This option generates the highest saving to the GLA of £48.4m, £99.7m and £151m over 5, 10 and 15 years.

Compared to Option 1, this is higher by [redacted] over 5, 10 and 15 years.

The Group saving under this option are: £68.5m, £141m and £215.9m after factoring rental income from GLA to group.

This option however does not provide the GLA with a long-term asset like The Crystal and relies on renting a chamber and events space at the market rate at any point in time. Option 1 provides chamber and events space up to 15 years and Option 2 and 2A provides certainty up to 25 years and beyond as the Crystal is owned by GLA Group. The cost to rent a chamber and event space is estimated to cost approximately £2.5m per annum and a fitout cost of £9.8m.

The driver for this Option to produce higher savings compared to Option 2 is the lower estimated fitout cost compared to The Crystal.

It is not realistic to be comparing the savings of Option 3 against Option 2 as the cost of the fitout could be much higher than £9.8m. More time is required to provide an accurate costing and professional advice is required similar to the relocation costing at Option 2.

Summary of all Options – SAVINGS CASH

GLA SAVING	5 year	10 year	15 year
OPTION 1	[redacted]	[redacted]	[redacted]
OPTION 2	47.0	97.0	151.0
OPTION 2A	38.6	79.0	120.9
OPTION 3	48.4	99.7	151.0

GROUP SAVING	5 year	10 year	15 year
OPTION 1	[redacted]	[redacted]	[redacted]
OPTION 2	61.2	125.8	194.3
OPTION 2A	58.8	120.2	185.8
OPTION 3	68.5	141.0	215.9

Summary of all Options – SAVINGS NPV

GLA SAVING	5 year	10 year	15 year
OPTION 1	[redacted]	[redacted]	[redacted]
OPTION 2	42.6	84.3	125.1
OPTION 2A	34.8	68.4	100.0
OPTION 3	43.9	86.8	125.3

GROUP SAVING	5 year	10 year	15 year
OPTION 1	[redacted]	[redacted]	[redacted]
OPTION 2	55.7	109.7	161.5
OPTION 2A	53.5	104.8	154.4
OPTION 3	62.6	123.2	179.7

Options 2, 2A and 3 generates the most savings therefore leaving City Hall will generate far greater savings compared to staying.

Option 3 although appear to deliver marginally the highest savings to the GLA, it does not factor in a medium- or long-term venue for a chamber or event space compared to Option 2 and 2A. The assumptions factored in this option at present is to rent rather than own an asset for the GLA's own use with regards to a chamber and event space.

Cost per desk in all option

Deskspace requirement	**575.00**															
Assumed annual cost as at 2021-22																
			(Option 2)				(Option 2A)					(Option 3)				
£m	Current lease from Dec-21	latest rent offer 02.09.20	Crystal	Union Street GF	Union Street 1st F	Total	Palestra	Crystal	Union Street GF	Union Street 1st F	Total	Palestra	Chamber*	Union Street GF	Union Street 1st F	Total
Rent	9.4	[redacted]	1.7	1.5	1.1	4.3	1.7	1.7	1.5	1.1	6.0	1.7	2.5	1.5	1.1	6.8
Rates and running cost	7.6	[redacted]	2.6			2.6		2.6			2.6					-
Total	**17.0**	[redacted]	**4.3**	**1.5**	**1.1**	**6.9**	**1.7**	**4.3**	**1.5**	**1.1**	**8.6**	**1.7**	**2.5**	**1.5**	**1.1**	**6.8**
Deskspace per annum £00	**29.5**	[redacted]				**12.0**					**14.9**					**11.8**
* chamber rental and event space could be higher																

Reconciliation of original proposal to leave City Hall

The original proposal was to leave City Hall and relocate at Crystal which is Option 2.

	Annual	5-Year lease	Option 2 5 year	Saving
	£m	*£m*	*£m*	*£m*
CH Rent	9.4	47.2	47.2	0.0
Rates/Utilities	3.2	15.8	41.8	26.0
Set up cost	(1.6)	(8.0)	(13.6)	(5.6)
Crystal Rent & running costs	(2.4)	(12.0)	(22.7)	(10.7)
Palestra desk space	(2.3)	(11.5)	0.0	11.5
Fitout at Union Street for Assembly members			0.0	0.0
Union Street additional space			(5.8)	(5.8)
Loss income: CH rental of chamber/event space			(1.0)	(1.0)
Gain income: Crystal rent of chamber/event space			1.0	1.0
GLA Saving (original) v Current Option 2	**6.3**	**31.5**	**47.0**	**15.5**
Crystal Rent	2.4	12.0	8.4	(3.6)
Palestra desk space	2.3	11.5	0.0	(11.5)
Union Street additional space			5.8	5.8
GLA Group Saving (original) v Current Option 2	**11.0**	**55.0**	**61.2**	**6.2**

Compared to the original proposal and factoring in changes to reflect latest costs and income under this option, generates a revised saving to GLA of £47m and Group £61.2m which is better than the original assumption.

The latest landlord offer is for 10 years with an option to extend to 15 years therefore cannot be compared directly to the original savings assumption.

Dilapidation cost - Option 2, 2A and 3

The GLA has been building up a provision to cover dilapidation costs under the obligation of the current lease and therefore this cost has not been included in these options.

Funding of revenue items

All costs within this exercise is deemed revenue costs apart from the fitout cost of £13.6m which is capital funded.

As all options to leave generates a cash saving each year to the GLA, no additional funding is required.

The fitout cost of The Crystal

The capital strategy published in the 2020-21 budget provided a provision of £19.5m for City Hall infrastructure works from 2021-22 until 2038-39.

This funding will be utilised earlier to cover the cost of the fitout at The Crystal.

Part 2 Appendix 2 – Assessment of potential future uses of The Crystal

The value of The Crystal site has been appraised through a series of exercises since 2016 when the building was acquired by GLA Land & Property (GLAP). Studies and consultant advice gathered by GLAP are collated below as an aggregated series of assessments rather than a comprehensive study. Valuations and assessments not subject to Red Book principles. The assessment takes account of planning considerations as well as the extent to which each option supports the Royal Docks Enterprise Zone objectives.

Option	Valuation	Assumptions	Planning Considerations	Risks	Alignment with Enterprise Zone Objectives
Option 1 – Residential Redevelopment (In line with current GLAP practice a purchaser for the site would be sought from the GLA Developer framework - London Development Panel 2.)	£26m	This appraisal has been carried out by GL Hearn as part of the GLAP Estates annual valuation (March 2020). The valuation is derived from a notional 788 unit residential scheme with the following inputs: studio, 1, 2 and 3 bedroom apartments (50% affordable); GDV of £327m (private £650 - £800 per sq ft/affordable £293 - £360 per sq ft); Build costs - £255 per sq ft; CIL £10.64 per sq ft; Professional fees 10%. No planning risk scoped.	Avison Young have reviewed planning policy affecting the Crystal site. The Crystal sits in Strategic Site Allocation S30 (Royal Victoria West). The site allocation states that new residential, leisure and cultural uses will be supported at this gateway site to the Royal Docks, along with high quality public realm and existing water/waterside recreational uses and improved walking and cycling links. The allocation sets indicative building heights of up to 19 storeys. Community uses are also protected in the Newham Local Plan. (The Crystal is a D1 community use presently.) This	Overall development risk including: • Planning risk • Cost overrun risk • Marketing and sales risk • COVID-19 risk around delivery and supply chain. This option contains a high level of organisational and reputational risk regarding the demolition of a relatively new and highly sustainable building.	It may be considered that this option does not support the wider objectives of the Enterprise Zone due to the balance in favour of residential use on the site.

		[Further work is required to refine this appraisal in line with most recent planning advice.]	means that it is likely that community uses will be required at ground floor level of any residential development on this site.		
Option 2 – Building retained and refurbished as office use	£10m – 20-year lease **or** £21m – long lease (land disposal)	Jones Lang LaSalle have provided commercial advice regarding re-letting The Crystal as office use. Assumptions: • 7,500sqm exhibition floorspace converted to office use. A planning risk discount of 33% is applied to this floorspace to reflect the need for a change of use that would be required. • A 6-month planning period and a 6 month works period. Capex totals £2.5m. • A void period of 12 months to account for fit out of the building. • A 12-month rent free period.	A change of use will be required to convert the Crystal to B1 office use (from a D1 use). The use would be considered a main town centre use under the NPPF and so would require a sequential assessment. This conversion of use must pass one of three tests in respect to the loss of D1 space; 1) that strategic provision is identified elsewhere in the borough with The Crystal as surplus to requirement; 2) marketing the premises for 6 months or; 3) demonstrate that the building is unsuitable for its use in this location. It is therefore likely that the 6-month planning period in the commercial assumptions is insufficient.	• Planning risk regarding the loss of community use. • Commercial risk considering the current market and COVID-19 potentially reducing demand for conventional office space. • Organisational risk of reducing public accessibility on a prominent site within a publicly funded regeneration area. • Use of a prominent public building to be used as private offices may be	This option would support Enterprise Zone objectives in respect to boosting the economic activity of the area. The private office use would need to be balanced against potential public uses on such a prominent dockside site.

				subject to local opposition.	
Option 3 – Building retained for alternative exhibition use	-£11.5m	This assessment considered using The Crystal as a new exhibition centre with a focus on the built environment and regeneration. The programme would combine exhibition with cultural events (i.e. art exhibitions, learning, community and function rooms) and flexible office space to provide greater stability of income. Fourth Street was appointed to model a business plan for The Crystal. This considered: • Capital expenditure of £3.2m for fit out. • A financial model built, taking account of income and costs. This demonstrated that the viability of the proposed use would be challenged by the scale and complexity of the building. The use would require a measure of	It is unlikely that a significant change would be required for this specific use. Note that the D1 use is specifically for Exhibitions. Minor changes to the Section 106 would be likely to accommodate any programmatic changes.	This option is unlikely to be viable within the current market.	This would support Enterprise Zone objectives in promoting the regeneration of the wider area. However, a longer-term sustainable use that could generate business rate income without subsidy would be desirable.

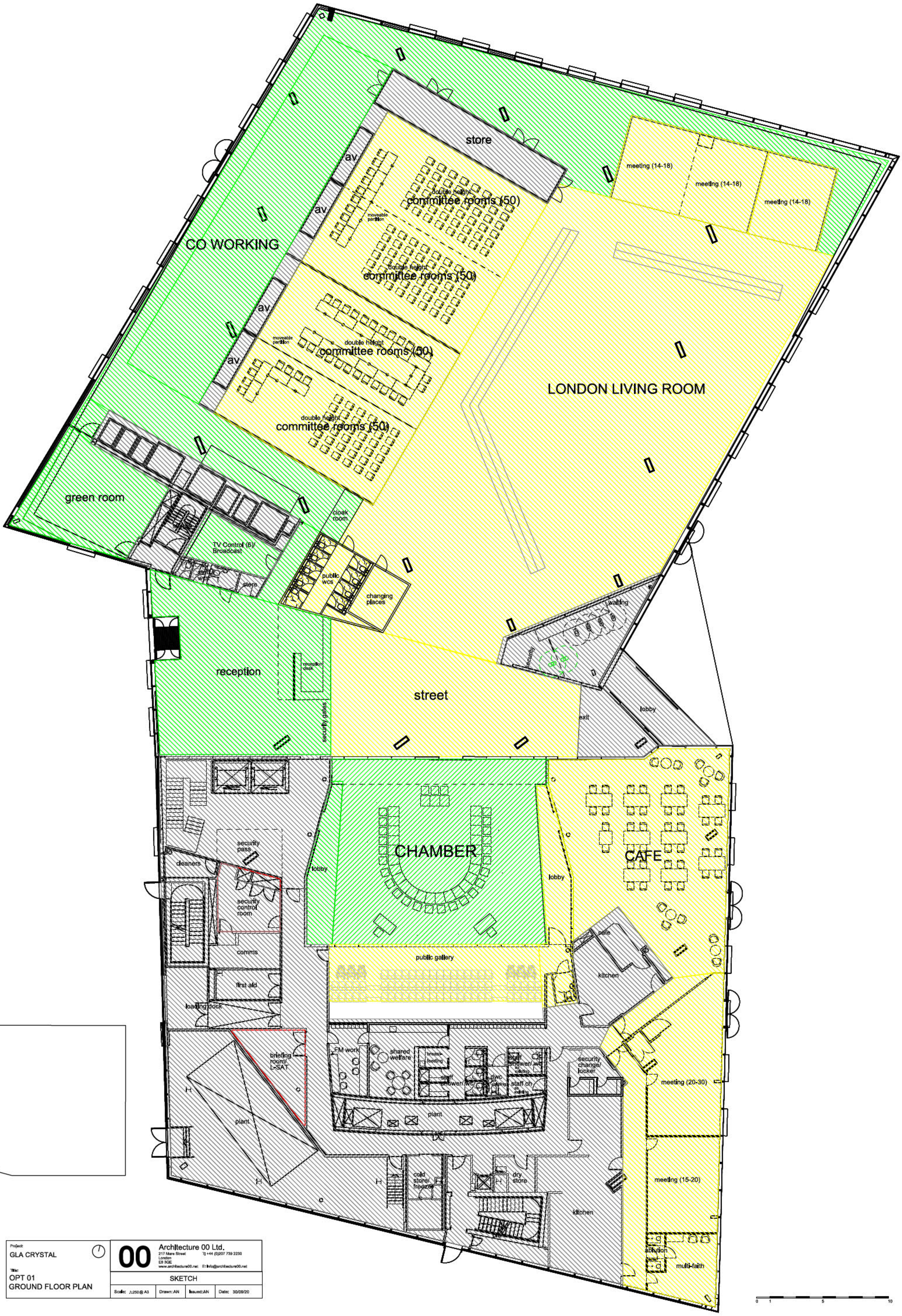
		subsidy through a balancing payment which, over a 5-year period, was calculated at between £10.9 and £11.5m to breakeven. *			
Option 4 – Building retained for educational use	£17.6m*	This option considers an offer received by GLAP for a potential educational occupier. This includes: • A lease period of 50 years with a premium payment/rent review in the twentieth year if the lease is extended. • Headline rent of £27.50 per sq ft in accordance with current market evidence. Different apportionments are applied throughout the building.	A new planning permission would be required to change from an exhibition centre. However, the planning risk is less when compared to some other options considered given that it would remain as a D1 use.	• Whilst this use has low planning risk, it does not maximise the commercial return on the property.	This option is well aligned with Enterprise Zone objectives including adding footfall, supporting the local economy, potentially attracting other uses if a credible educational institution is housed at the Crystal.
Unsolicited Offer: Option 5 - Church	£20m*	This is a speculative offer received from a contemporary Christian Church founded in 1983 which has facilities in city centres in 28 countries around the world, with an average global attendance of 150,000 people weekly.	Whilst this option falls into a D1 use, the use does not align with the Strategic Site allocation and is additionally a Town Centre use under policy INF5 in Newham's Local Plan. It is likely that the council will require significant work to	• No financial evidence has been provided to GLAP thus far substantiating the offer.	This option does not support Enterprise Zone objectives.

*Confidential**

		A new 150 Year Long Leasehold Interest with a fixed head rent at a peppercorn per annum. A deposit of 10% would be paid on exchange of contracts.	ensure transport access is appropriate for large gatherings alongside a potential sequential test to demonstrate that a Town Centre use is appropriate.		

Part 2 Appendix 3

Plans for reconfiguration of The Crystal



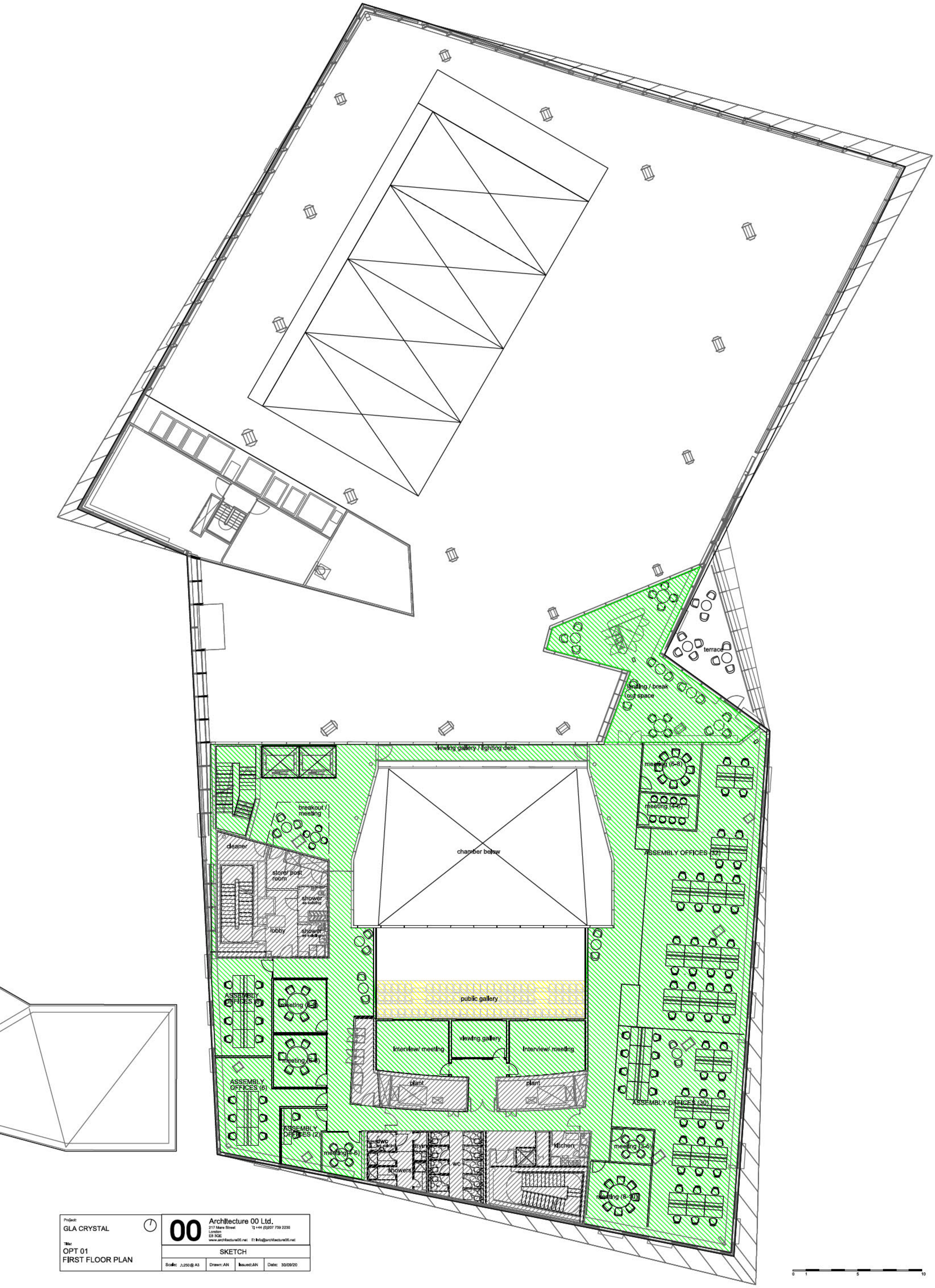
Project:
GLA CRYSTAL

Title:
OPT 01
GROUND FLOOR PLAN

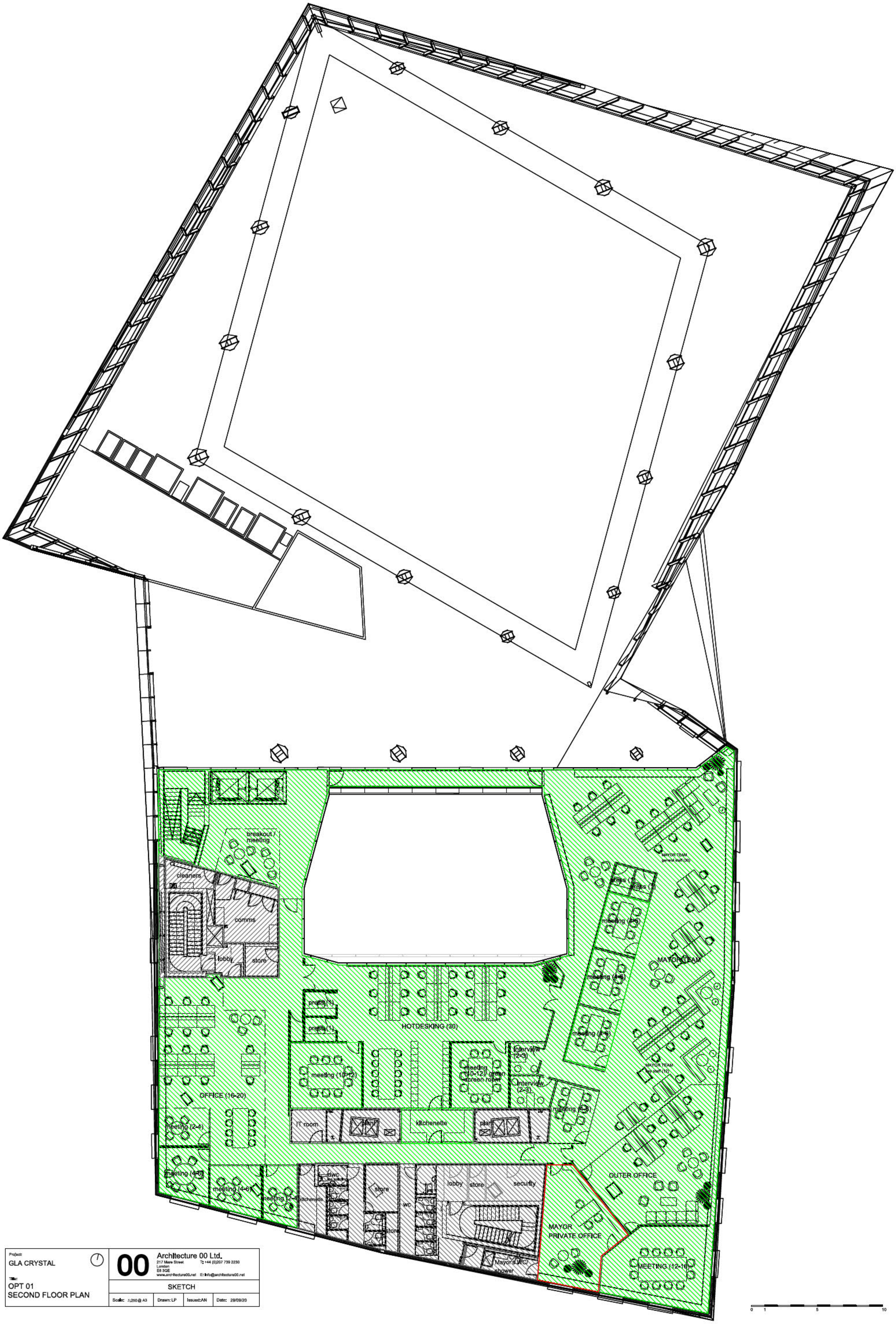
00 Architecture 00 Ltd.
217 Mare Street
London
E8 3QE
www.architecture00.net
T: +44 (0)207 739 2230
E: info@architecture00.net

SKETCH

Scale: 1:250 @ A3	Drawn: AN	Issued: AN	Date: 30/09/20



Project: GLA CRYSTAL	00 Architecture 00 Ltd. 217 Mare Street London E8 3QE www.architecture00.net T: +44 (0)207 739 2230 E: info@architecture00.net			
Title: OPT 01 FIRST FLOOR PLAN	SKETCH			
	Scale: 1:250 @ A3	Drawn: AN	Issued: AN	Date: 30/09/20



Project: GLA CRYSTAL	00 Architecture 00 Ltd. 217 Mare Street London E8 3QE www.architecture00.net T: +44 (0)207 739 2230 E: info@architecture00.net		
Title: OPT 01 SECOND FLOOR PLAN	SKETCH		
	Scale: 1:250 @ A3	Drawn: LP	Issued: AN	Date: 29/09/20

Transport for London
7G3 Palestra
197 Blackfriars Road
Southwark
London
SE1 8NJ

FAO: A Jones

Greater London Authority
City Hall
The Queen's Walk
London
SE1 2AA

FAO: S Grinter

By Email Only

Without Prejudice & Subject to Contract & Board Approval

Private & Confidential

5 August 2020

Dear Sirs,

City Hall, The Queen's Walk, London, SE1

[redacted]

ST MARTINS PROPERTY INVESTMENTS LIMITED
Shackleton House 4 Battlebridge Lane London SE1 2HX +44 (0)20 7940 7700

ST MARTINS

[redacted]		[redacted]
[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Transport for London

Friday, 07 August 2020

Our Ref
Your Ref

Transport for London
Commercial Development

G4 7th Floor
Palestra
197 Blackfriars Road
London
SE1 8NJ

Tel No: 07545 201353
Email: alunjones@tfl.gov.uk

[redacted]
St Martins Property Investments Limited
Shackleton House,
4 Battlebridge Lane,
London,
SE1 2HX

Without Prejudice and Subject to Contract

Dear Henry,

Re: City Hall, The Queen's Walk, London, SE1

Thank you for your letter dated 5 August 2020 outlining an indicative offer St Martins would be willing to make to encourage the GLA to remain at City Hall.

As you indicated, some time has now elapsed since we advised you of the GLA's plans on the 23 June and invited St Martins to make a proposal to incentivise the GLA to stay at City Hall. It has also been almost four weeks since our follow up meeting on the 13 July where we discussed various options and you were intending to send us some indicative terms shortly after. As you know, we have been chasing for these on a regular basis over the last few weeks.

Simon and I have discussed the proposals in your letter with our key GLA stakeholders and, although the offer is appreciated, it is well below what we would expect to stay in the building for another 15 years. In addition, if we model our business case across 15 years as opposed to 5 years, the savings of £55m almost treble, so this makes it extremely difficult to justify a renewed commitment to City Hall for this period. The removal of the reinstatement provisions is helpful but, as you will appreciate, the building would be ripe for redevelopment in 15 years' time so there may not be a reinstatement liability in any event.

It is disappointing that you have not made any proposals around the terms we discussed at our last meeting, referred to above. As you will recall, during this meeting you indicated that you would be offering indicative terms for the GLA to stay for another 5 or 10 years. You outlined these proposals in some detail. Simon and I also made it clear that an offer based on these lease lengths would be more acceptable than a longer-term commitment.

We also talked about the possibility of a short lease extension and the potential of the GLA purchasing the freehold but there is no mention of these options.

Assurances were also requested regarding addressing the flooding on the lower ground floor and we sought confirmation that the GLA would not be held liable for the outstanding defects to the cladding. I should be grateful if you would let me know where St Martins stand in connection with these matters - in particular whether you would consider a sale of the freehold and at what price.

As you mentioned in your letter, the consultation period in respect to the relocation has now ended and a final report will be submitted to the Mayor shortly, taking into account all stakeholders representations.

In order for us to close matters, it would be helpful to receive a proposal to stay in City Hall until December 2026 – the remaining lease length. The choice we have at the moment is to stay in City Hall for another 5 years or break the lease, so the 5 year option ties in with this and matches our business case model. However, the GLA is happy to consider any other serious offers.

The GLA is willing to give St Martins a final opportunity to make alternative proposals to stay in City Hall or amend the current offer.

However, any revised offers must be received by close of business on Friday 14 August and must be full and final; otherwise, in view of the time scales to deliver the report to the Mayor, for business case purposes the GLA will have no alternative but to assume that the 15 year lease option is the only offer St Martins is willing to make.

I look forward to hearing from you again shortly and if you have any queries or wish to discuss any aspect of this matter with me please do not hesitate to get in touch.

Yours sincerely,

[redacted]

Alun Jones
Senior Property Manager

ST MARTINS

A Jones Esq
Transport for London
7G3 Palestra
197 Blackfriars Road
Southwark
London
SE1 8NJ

By Email Only
Without Prejudice & Subject to Contract & Board Approval
Private & Confidential

13th August 2020

Dear Alun,

City Hall, The Queen's Walk, London, SE1

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

ST MARTINS

[redacted]

[redacted]

[redacted]

[redacted]

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ST MARTINS PROPERTY INVESTMENTS LIMITED
Shackleton House 4 Battlebridge Lane London SE1 2HX +44 (0)20 7940 7700

LEASE RESTRUCTURE ADVICE

ADDRESS: City Hall, Queen's Walk, London SE1

AVISON YOUNG

LOCATION & DESCRIPTION

The More London development occupies a 13 acre site located on the South Bank of the Thames between London Bridge and Tower Bridge. This mixed use development comprises a number of modern office buildings, together with the Unicorn Theatre and the Hilton Tower Bridge Hotel.

City Hall is located at the eastern end of the More London development, in front of 3 More London Riverside. Due to its position, City Hall enjoys views of the river.

THE BUILDING

The building was constructed in the early 2000s to house the Greater London Authority (GLA). City Hall is a detached 'bulbous shaped' 10 storey detached building comprising offices, together with an assembly chamber and ancillary uses. There is a large lower ground floor area which overlooks a sunken open amphitheatre called "The Scoop".

For the purpose of this exercise we have not inspected the premises, although we have been provided with a copy of the lease dated 1 September 2003 which includes a set of plans, together with a summary of the category A reinstatement specification. Generally, this provides for the office floors to be reinstated to open plan to the following specification:

Raised Floors:	300 mm inclusive of the tile thickness.
Ceilings:	Notional radial planning module.
Air Conditioning:	Chilled beam air conditioning, without humidity control.
Lighting:	Inset – LC3 Category 2.

FLOOR AREAS		
We have not measured the accommodation. For the purpose of this report we are working off the net internal floor areas provided as summarised below:		
	Areas Sq. Ft.	
9th Floor	5,038	
8th Floor	9,085	
7th Floor	10,904	
6th Floor	12,981	
5th Floor	13,294	
4th Floor	13,789	
3rd Floor	12,034	
2nd Floor	10,011	
1st Floor	4,704	
Ground Floor	4,596	
Lower Ground Floor	34,316	
Total	**130,752**	

LEASE DETAILS	
Term:	25 years from 25 December 2001.
Expiry:	24 December 2026
Tenant Break:	There is a tenant only option to break effective 25 December 2021 on the giving of not less than 12 months prior written notice. The break is conditional upon giving full vacant possession.
Rent:	Passing Rent– £7,952,308, subject to a fixed increase to £9,444,847.37 with effect from 28 February 2022
Repairs:	Full repairing and insuring terms with the landlord having the ability to build up a sinking fund to cover exceptional repair items.
User:	Offices and assembly chamber and any purposes ancillary to that use.
Alienation:	Assign or sublet the whole or sublet parts subject to landlord's prior written consent which is not to be unreasonably withheld. Assignments are to be subject to an AGA, unless the assignee is a S&P Level A covenant. There are relaxed provisions for alienation between Public Bodies.
Alterations:	The tenant is permitted to carry out structural alterations with landlord's prior written consent which is not to be unreasonably withheld. The erection and removal of partitions and the carrying out of non-structural alterations do not require consent.

MARKET COMMENTARY

Q2 2020 LONDON CITY OFFICE MARKET COMMENTARY

City take-up totalled 350,000 sq ft in Q2 2020 which was 61% down on the 10-year average and the lowest on record, albeit comparable to the low point following the financial crisis, Q1 2009, when take-up reached 460,000 sq ft.

The largest transaction for Q2 was the acquisition of 86,000 by Covington and Burling at 22 Bishopsgate, EC2. The legal occupier acquired the space at the start of Q2 on a 15-year lease term.

Due partly to the Covington and Burling deal at 22 Bishopsgate, EC2, April was the strongest month accounting for 59% of the quarter's activity. May was the quietest month accounting for 19% of activity. Activity picked up slightly in June as restrictions began to ease.
Indeed, there were no deals in May over 20,000 sq ft, but June recorded two: the first to Arcadis at 80 Fenchurch Street, EC3, and the second to Baker Botts at 20 Fenchurch Street, EC3.

Grade A take-up accounted for 57% of overall City take-up in Q2 which was a fall on Q1's 66% but above the 10-year average of 52%. By sq ft, Grade A demand was 58% down on the 10-year average and the lowest since Q2 2016.

The Professional Services sector accounted for 57% of take-up, followed by TMT & Creative with 26% and Financial Services with 17%. There was no take-up by serviced office operators for the quarter, Q2 2020 was unsurprisingly the third consecutive quarter of declining take-up by serviced office operators in the City.

The City vacancy rate rose marginally to 6.50%, up from 6.47% in the preceding quarter suggesting, despite the crisis, there has not yet been an influx of tenant-offered space onto the market. JLT recently announced their disposal of 290,000 sq ft at the St Botolph Building, EC3 due to their merger with Marsh, although this will not be available until the end of 2021.

With construction activity underway through much of the crisis, work on speculative developments has continued and, notably, 100 Liverpool Street, EC2 reached PC during the quarter. The under-construction pipeline totals 6.8 million sq ft, of which 35% is currently pre-let.

Stock due to complete in 2020 is currently 46% pre-let. With 22 Bishopsgate, EC2, now over 60% pre-let and due for completion in Q4 2020, the largest single availability is at Gotham City, 40 Leadenhall Street, EC3 where 880,000 sq ft is due for delivery in Q1 2023.

Prime rents and rent free periods have remained stable for Q2 2020 while there is limited evidence to the contrary. The prime City headline rent currently stands at £72.50, and £90.00 for a tower floor. The MSCI City rental growth index fell 0.2% in the three months to May 2020.

It is worth noting that this market reflects our formal position as at the end of Q2 2020, over two months ago. Given the issues relating Covid 19 (highlighted below) and the associated low levels of market activity it is very difficult to accurately assess where 'headline' rents and rent frees are currently. Our current view is that 'headline' rents have remained relatively unchanged and that rent frees have moved out from 24 months to 30 months for a ten year term certain.

ESTIMATED RESTRUCTURE PREMIUM

On your instruction we carried of a high level 'desktop' appraisal of the proposals contained in a letter from St Martins dated 13 August 2020.

OPTIONS	TERMS	ESTIMATED SAVINGS OVER LEASE COMMITMENT
[redacted]	[redacted] [redacted]	[redacted]
[redacted]	[redacted] [redacted]	[redacted] [redacted]
[redacted]	[redacted] [redacted] [redacted]	[redacted] [redacted]

Option 1.

NPV Cashflow

We have run a 15 year cashflow for this option of a five year extension at the current passing rent together with a [redacted] cash or rent free equivalent incentive. Our calculations suggest that, all things being equal, a **further** [redacted] **could be argued for,** reflecting the difference to GLA between the NPV liability based on our assessment of what a market deal might look like for a five year extension and the terms proposed by St Martins.

Using the same 15 year cashflow approach, based on a uniform set of assumptions we estimate that St Martins NPV income position would be improved by approximately [redacted] as a result of this deal. If they increase their cash or rent free equivalent incentive offer by [redacted] as suggested above, there is still a [redacted] **net gain / marriage value.** Consequently, it could be argued that St Martins could offer to incentivise GLA further by offering a proportion of this marriage value on top of the additional [redacted].

Rent Free Period

Benchmarking the [redacted] financial inducement against market rent frees, the **additional margin might be** [redacted]

Capital Value

On a capital value analysis St Martins could see an **enhancement of circa** [redacted] resulting from this deal.

Option 2.

<u>NPV Cashflow</u>
We have adopted the same cashflow model for this option of a 10 year extension at the current passing rent together with a [redacted] cash or rent free equivalent incentive, we estimate that it represents a **saving of circa** [redacted] **in NPV liability** for GLA over the term when compared to our assessment of what a market 10 year market deal might look like. On the same basis there doesn't appear to be any further "upside" for St Martins.

<u>Rent Free Period</u>
Benchmarking the [redacted] financial inducement against market rent frees, we don't consider there to be an additional margin.

<u>Capital Value</u>
On a capital value analysis however, St Martins could see an **enhancement of circa** [redacted] resulting from this deal.

Option 3.

<u>NPV Cashflow</u>
For this 15 year extension option at an initial rent of [redacted] with fixed uplifts, together with a [redacted] cash or rent free equivalent incentive, we estimate that it represents a **saving of circa** [redacted] **in NPV liability** for GLA over the term when compared to our assessment of what a market 15 year market deal might look like.

We also estimate that St Martins would see an improvement in their **NPV income position by approximately** [redacted]. Consequently, it could be argued that St Martins could offer to incentivise GLA further by offering a proportion of this improved NPV position / marriage value on top of the additional [redacted] gain to GLA referred to above.

<u>Rent Free Period</u>
Benchmarking the financial inducement against market rent frees, the additional margin might be de minimis.

<u>Capital Value</u>
On a capital value analysis St Martins could see a **capital value enhancement of circa** [redacted] as a result of this Option.

Analysis Considerations

NPV Cashflows

The NPV liabilities are intended to benchmark the different Options against what we believe to be a realistic market position, based on an applied set of assumptions, reflecting our understanding of the circumstances.

It is worth bearing in mind the fact that whilst 15 year NPV income cashflows were used to analyse each Option from a landlord's perspective, different timeframes would produce different results which are, in turn, dependant on 'high level' subjective input assumptions.

Rent Free Periods

These benchmarks are intended to put into context the financial inducements offered, compared to the level of rent free that an incumbent tenant might expect to receive as part of a 'market deal.

Capital Values

On the face of it the capital value enhancements appear to justify the greatest improvement in the terms offered, but they are both 'high level' and subjective. In addition, we think it unlikely that St Martins will be drawn into a debate about capital appreciation given they are a Sovereign Wealth Fund who are unlikely to be looking to sell and break up the More London Estate.

Dilapidations

Our assessments above take no account of dilapidations liability at the end of the term. We have been advised that the 'no reinstatement' obligations in Options 2 and 3 includes waiving dilapidations. You have advised us that you estimate the **reinstatement and dilapidations cost to be in the order of £10 million.** This provides GLA with an additional benefit when compared to the options of exercising the 2021 break and Option 1, but that is not to say that dilapidations will be as high as £10 million in reality, once 'supersession' is taken into account.

In addition, it is worth bearing in mind that the building is approximately 20 years old and in addition to the cladding defect you have identified, the longer the term extension GLA commit to, the greater the annual repair / maintenance costs are likely to be. These repair / maintenance costs are not reflected in our appraisals of these options.

These assessments take no account of the following:

The assessment of the value that might be released as a result of a restructure does not allow for any variation in rental values that may be apparent from an inspection of the premises and a clear indication of what has been included / excluded from the NIA areas. An on-site inspection will reveal the outlook and the levels of natural light on each of the floors. City Hall is unique as it has been purpose built and there are aspects that will have a bearing on its suitability as commercial office building that aren't apparent, or their significance is hard to establish, from the plans provided.

Recent evidence that may have been established on the More London Estate. As this is a high level 'desktop' report which is intended to inform the early stages of an occupation strategy we haven't carried out a detailed assessment of the market. With this in mind we have erred on the side of caution when considering what the appropriate rent might be for the building as it stands today but reinstated to a category A condition.

All figures quoted are exclusive of VAT.

Covid-19
Material Valuation Uncertainty

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a "Global Pandemic" on the 11th March 2020, has impacted global financial markets. Travel restrictions have been implemented by many countries.

Market activity is being impacted in many sectors. As at the report date, we consider that we can attach less weight to previous market evidence for comparison purposes to inform opinions of rental value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our opinions are therefore reported on the basis of 'material market uncertainty'. Consequently, less certainty – and a higher degree of caution – should be attached to our opinion of the premium than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, together with other evidence that might come to light prior to the completion of any transaction we reserve the right to amend our opinions at a future date.

Qualification

Please note that the contents of this report do not constitute a Royal Institution of Chartered Surveyors (RICS) Valuation Standards (Red Book) Valuation and should not be treated as such. The content of this report is intended for the use of the GLA only and is not to be relied upon by any third party.

RECOMMENDATION

GLA is not able to force St Martins to improve on any of these offers regardless of the apparent mutual commercial benefits that arise from doing so, although it is encouraging to see that St Martins have readily engaged.

Unless GLA has a firm and settled intention to exercise the break and provide full vacant possession of the building on or before the break date of 25 December 2021 we strongly recommend negotiations are progressed with St Martins with a view to establishing if better terms can be negotiated on GLA's preferred option. This will enable GLA to incorporate a stay option, on the most realistic terms, into any appraisal if required and to give sufficient time to put in place and act upon a contingency plan.

RECOMMENDATION SIGNED ON BEHALF OF AVISON YOUNG

[redacted]

SIGNED: [redacted] **BSc MRICS** **Dated: 14/09/2020**

MAP

N Greenwich Pier - London Bridge Pier
London Bridge City Pier
Tower Pier
HMS Belfast
Tower Millennium Pier - Canary Wharf Pier
Tower Bridge Rd
Tower Bridge
Montague Cl
Tooley St
Southwark Cathedral
London Bridge Experience
London Bridge
Cottons Centre
Côte Brasserie
The Horniman
Crown Court Southwark
Morgan's Ln
English Grounds
Battle Bridge Ln
Counter St
Hay's Ln
Sweet Express
London Bridge St
St Thomas St
More London Estates
Gaucho
More London Riverside
The Scoop
City
Hilton London Tower Bridge
Hutong
Shangri-La Hotel, At The Shard, London
Marks & Spencer
Bermondsey St
Shad Indian
A200
Tesco Tooley St Metro
Potters Fields Park
Unicorn Theatre
Tower Bridge Exhibition Offices
Shad Thames
Magdalen St
Gibbon's Rent
Shand St
Barnham St
Druid St
Weaver's Ln
Potters Fields
One Tower Bridge
Horselydown Ln
Gainsford St
Guy's Hospital
Guy's and St Thomas'
New Hunt's House Library
Great Maze Pond
Wolfson House, King's College Accomodation
Mellor St
Greenwood Theatre
Vinegar Yard
Underdog Art Gallery
Crucifix Ln
Restaurant Story
Queen Elizabeth St
Pommelers Rest
Newcomen St
Snowsfields
The Miller
Kipling St
Guy Street Park
Weston St
Kirby Grove
Tanner & Co
Fair St
Boss St
Lafone St
GLE

To St. Martins's

21 September 2020

Dear Sirs

Without Prejudice and Subject to Contract

Thank you for your letter of 13 August.

I note your improved full and final offer but also your comment that you are keen to retain the GLA on More London and that you would welcome the opportunity for further discussions to seek to achieve this objective.

We have now virtually concluded the detailed financial analysis of the savings that would arise if the Mayor decided to relocate from City Hall. The Mayor will consider the proposal holistically but the financial analysis shows that there is a clear and material saving to the GLA Group from the Mayor exercising this option, irrespective of your improved offer. Further, the GLA has commissioned independent professional advice on your full and final offer and our advisors believe that in view of the current market conditions and the importance to you of the GLA remaining an anchor tenant on More London, that you could significantly improve the offer you have made.

Accordingly, given your wish to retain the GLA at City Hall, and assuming you are willing to consider the extent to which you might further improve your offer, I would be grateful if a decision-maker from your Board and I could meet urgently this week to consider what options for improvement you have. At the same time, we can give you an indication of the gap we believe you need to bridge and why.

I would be grateful if you could respond directly to me on this letter by no later than 5pm on Wednesday 24th September.

Yours sincerely

David Gallie
Executive Director of Resources
GREATER**LONDON**AUTHORITY
City Hall, The Queen's Walk, London SE1 2AA
07919 482 717
david.gallie@london.gov.uk

ST MARTINS

Greater London Authority
City Hall,
The Queen's Walk,
London
SE1 2AA

23 September 2020

BY EMAIL ONLY

Dear David,

[redacted]

[redacted]

[redacted]

[redacted]

[redacted] Hall's [redacted]

[redacted]

[redacted]

[redacted]

[redacted]

ST MARTINS PROPERTY INVESTMENTS LIMITED
Shackleton House 4 Battlebridge Lane London SE1 2HX +44 (0)20 7940 7700
Registered in England and Wales No.1124205 at the above address

To St. Martins's

25 September 2020

Dear Sirs

Without Prejudice and Subject to Contract

I refer to my letter of 21 September, your reply of 23 September and my acknowledgement of your letter of 24 September.

I am now in a position where I can set out a counter-offer for your consideration. However, before setting out the terms of this counter-offer, I need to set out the context facing the Authority so that you may better understand our proposal.

As you set out, the Authority is paying a premium rent for our current location. Therefore, a financial comparison with our proposed alternative location at The Crystal building in Newham is always going to make a compelling case for the Authority to move. We recognise that you cannot be expected to fully match the savings we estimate from the proposed move to The Crystal and I said before the Mayor will consider this decision holistically, rather than just on the savings.

If the Authority were to negotiate a further lease with yourselves this would need to be for at least 10 years from December 2021, with an option to extend for a further five years. This is to ensure the Authority had a degree of certainty over the medium-term. However, in view of the failure to satisfactorily resolve structural issues at City Hall, notably cladding and flooding, such a term quickly exposes the Authority to potentially significant financial liabilities if these costs were not to be met by yourselves.

Accordingly, I set out a counter-offer which reflects the context set out above and our professional advisors view of what would be a challenging but realistic proposal that reflects recent moves in the market, as follows:

- A 10-year lease, with an option for a further five years;
- Rent of [redacted]., rising to [redacted] after 5 years, with rent for the option of a further five years being [redacted];
- A cash or rent-free incentive of [redacted] with an additional [redacted]payable if we extend for a further 5 years in 10 years' time, plus no dilapidation or reinstatement provisions;
- Commitment by yourselves to use your best endeavors to manage and fund major maintenance issues, such as cladding and flooding;
- Some protection around further downward movement in rental values over the lease period ; and
- Agreement for a signed lease to be completed by the end of October.

This counter-offer is at this stage indicative only and if generally acceptable to you would form the basis of further detailed negotiations which would need to complete swiftly and is subject to Mayor Approval. I trust this counter-offer will form the basis of serious consideration by yourselves, leading to an urgent meeting with a key decision-maker from your Board early next week to seek to establish your detailed response.

Please do not hesitate to contact me directly to discuss this counter-offer and agree how we urgently progress this issue.

Yours sincerely

David Gallie
Executive Director of Resources
Greater**London**Authority
City Hall, The Queen's Walk, London SE1 2AA
07919 482 717

ST MARTINS

Greater London Authority
City Hall,
The Queen's Walk,
London
SE1 2AA

2 October 2020

Without Prejudice
Subject to Contract

Dear David,

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]
[redacted]	[redacted]	[redacted]

ST MARTINS

[redacted]	[redacted]	[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

ST MARTINS PROPERTY INVESTMENTS LIMITED
Shackleton House 4 Battlebridge Lane London SE1 2HX +44 (0)20 7940 7700

Transport for London

Mary Harpley
Chief Officer of the GLA
City Hall
The Queen's Walk
London
SE1 2AA

Transport for London
Commercial Development

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197 Blackfriars Road
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London
SE1 8NJ

Tel No: 020 3054 3420

19 October 2020

Dear Mary,

CITY HALL RELOCATION – LANDLORD NEGOTIATIONS

As you will be aware, a key part of the City Hall relocation strategy has been the negotiations with the current landlord, St Martins, to establish the best terms available for the GLA to remain in City Hall.

Constructive discussions have been ongoing since the announcement of the plans in June. I am aware that you have been kept informed on progress and been consulted on each step in the process, but I attach a summary of the key outcome for your information.

Recently, the GLA's advisers, Avison Young, has taken the lead on negotiations and this has culminated in the offer set out below:

- new rent of [redacted] p.a. from the break date in December 2021 (reduced from the current rent of [redacted]m and due to rise to [redacted] in December 2021);
- ten-year lease with an option to extend for a further five years (the rent increases to [redacted] in the fifth year and [redacted] in the tenth year)
- incentive of [redacted]; and
- no dilapidations or reinstatement provisions at the end of the lease, which is worth approximately £10m.

The landlord has also offered to rebase the rent upwards or downwards in December 2021 to an appropriate index so that the GLA can potentially benefit from further downward movement in the market, though the rent would be capped at [redacted] p.a. and collared at [redacted] p.a. In addition, St Martins has agreed to try and resolve the flooding problem in the lower ground floor. Disappointingly, St Martins is not offering any assistance to resolve the water ingress to the cladding, partly because there is no easy solution to this without replacing the whole cladding.

We calculate the rent proposal to equate to an overall rate of [redacted] per square foot (£6.6m ÷ 130,000 sq. ft). We understand the proposal is significantly less than rents agreed in More London in recent months and the incentive offered is generous compared with other transactions. We set out below a summary of two key transactions and illustrate how these compare with the landlord's offer.

<u>Key Transactions in More London</u>

Premises	**Type of Transaction**	**Month agreed**	**Area (Sq. Ft)**	**Rent per sq. ft**	**Term**	**Incentive in terms of rent free**	**Comments**
3 More London	New letting	April 2020	17,000	£64.50	10 years	15 months	
2 More London	Lease renewal	October 2020	14,300	£76.50	5-10 years	20- 28 months	Tenant has a 5-year break option, 20 months' rent free initially and a further 8 months if the tenant does not break the lease
City Hall	Lease restructure offer	October 2020	130,000	[redacted]	10-15 years	[redacted]	[redacted]

The incentive offered of [redacted] equates to [redacted] months' rent free [redacted]) but if the removal of the dilapidations and reinstatement provisions is added, it is worth [redacted] and equates to a rent free of approximately [redacted] months [redacted]). If the GLA opts to commit for 15 years, a further [redacted]' rent free is available which results in a total rent free of [redacted]. This is an attractive incentive compared with above transactions and compares with market norms where 30 months' rent free would be expected for a lease commitment of 10 years.

We therefore consider that the negotiated offer is generous and gives the GLA a fair share of the added value the landlord enjoys by securing the GLA for a further 10 years. It also takes into account the difficulties St Martins will have in securing a new tenant for City Hall in the current Covid-19 crisis.

In our opinion, negotiations have now been exhausted and we do not consider that a materially higher offer will be forthcoming in the near future. For decision making purposes it should be assumed that the terms above will not be improved, however St Martins has not formally confirmed that this is the 'best and final offer' and it may be possible to marginally improve on the proposal if the Mayor decides to stay.

We hope the above is helpful advice and if you have any queries please let me know.

Yours sincerely,

Graeme Craig
Director of Commercial Development
Email: graemecraig@tfl.gov.uk

City Hall - Summary of Landlord Negotiations

Date	Action
23.06.2020	Meeting held with St Martins advising of Mayor's decision to consult on a proposal to relocate City Hall to The Crystal for a six-week period. St Martins also invited to make a proposal to encourage the GLA to stay at City Hall.
13.07.2020	Follow up meeting with St Martins to discuss options for remaining at City Hall. Several proposals discussed in detail including a possible short lease extension of under 12 months, remaining for another five years and a new 10-year lease. St Martins agreed to put their suggestions in writing within a few days.
05.08.2020	Letter received from St Martins making an indicative offer for the GLA to remain at City Hall for another 15 years. Offer reduced the rent from [redacted] to [redacted], no reinstatement or dilapidation obligations at the end of the lease and a [redacted] rent free or cash incentive. But willing to explore other options.
07.08.2020	GLA written response sent to St Martins requesting best and final terms, with an offer to remain for only five years, by 14 August.
14.08.2020	Letter received from St Martins outlining three options. A 5, 10 or 15-year lease commitment. For a 5-year lease the rent would reduce from [redacted] to [redacted] (the current rent) and a [redacted] rent free of cash incentive. For a 10-year lease as above but with rent free or cash incentive of [redacted] and no dilapidation or reinstatement obligations at the end of the lease. The 15-year lease option was as in a letter dated 05.08.2020.
25.09.2020	Following further discussions with St Martins and consultations with professional advisers, a formal counter offer was made by the GLA , subject to Mayors Approval, on the basis of a new 10-year lease, with a rent of [redacted] p.a. rising to [redacted] p.a. in 5 years, with an option to extend the lease by 5 years. A cash or rent-free incentive of [redacted] no dilapidations or reinstatement provisions, with a commitment from St Martins to address the flooding and the cladding problems.
01.10.2020	Respective professional advisers meet to negotiate further on the terms proposed by the GLA to remain at City Hall and St Martins requested to make a best and final offer by noon on the 2 October 2020.

02.10.2020	A revised offer received by St Martins on the basis of a 10-year lease at an initial rent of [redacted] p.a. rising to [redacted] in 5 years, a rent free for [redacted] and [redacted] equating to an incentive of [redacted]. No dilapidations at the end of the lease but no support with cladding issues or flooding problems initially offered. However, after pressing further on the maintenance problems, St Martins subsequently offered to deal with flooding problems at an estimated cost of [redacted]. Total savings of this offer compared with the current lease terms is estimated to equate to [redacted]
20.10.2020	Follow up meeting held between professional advisers. It was confirmed that there would not be a further opportunity to improve on the offer made prior to the Mayors decision. St Martins advisers indicate that an improved offer would not be forthcoming.